

July 10, 2017

Wipro Limited

Summary of Rated Instruments

Instrument*	Rated Amount	Rating Action
Fund-based (inter-changeable) facilities	Rs. 1,333.80 crore (Revised from Rs 3,126.00 crore)	[ICRA]AAA (Stable)/ [ICRA] A1+ Reaffirmed
Fund-based (inter-changeable) facilities	USD 1,097.00 million (Revised from USD 996.00 million)	[ICRA]AAA (Stable)/ [ICRA] A1+ Reaffirmed
External commercial borrowings (ECBs)	USD 150.00 million	[ICRA]AAA (Stable)/ Reaffirmed
Non-fund based facilities	Rs. 4,136.00 crore (Revised from Rs 3,625.00 crore)	[ICRA]AAA (Stable)/ Reaffirmed
Non-fund based facilities	USD 10.70 million	[ICRA]AAA (Stable)

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the [ICRA]AAA (pronounced ICRA triple A) rating to the Rs. 1,333.80 crore (revised from Rs. 3,126.0 crore) fund-based (inter-changeable) facilities, the USD 1,097.0 million (revised from USD 996.0 million) fund-based (inter-changeable) facilities, the USD 150 million ECBs and the Rs. 4,136.4 crore (revised from Rs. 3,625.0 crore) non-fund based facilities of Wipro Limited (Wipro / the company). ICRA has assigned a fresh rating to the USD 10.7 million non-fund based facilities of Wipro. The outlook on the long-term rating is stable. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 1,333.8 crore (revised from Rs. 3,126.0 crore) fund-based (inter-changeable) facilities and the USD 1,097.0 million (revised from USD 996.0 million) fund-based (inter-changeable) facilities of Wipro. Though a part of the bank limits of the company are denominated in foreign currency, ICRA's rating for the same are on a national rating scale, as distinct from the international rating scale.

Rationale

In arriving at the ratings, ICRA has taken a consolidated view of Wipro, factoring in its established global presence in the Information Technology (IT) services outsourcing industry and its diversified business verticals and strategic alliances spread across various geographies. The company functions in a dynamic industry environment witnessing a shift in customer needs from application-based services to automation, analytics and digitisation-based. The Indian IT industry also faces head winds because of policy changes in USA regarding H1B visas, visa availability and budgetary spends in the US healthcare segment due to expected change in regulations. This was, however, cushioned to an extent by healthy business volumes under financial solutions, consumer, manufacturing and technology verticals, thereby supporting the overall revenues. Wipro posted a 7.4 % yoy growth in revenues in constant currency and 4.9% yoy growth in US Dollar terms during FY2017. The company's efforts towards strengthening its presence in other verticals, together with expected growth in business volumes under new contracts are expected to support its revenue growth, going forward. Furthermore, over the last few years, Wipro has been investing incrementally on new technology areas such as social media, mobility, analytics and cloud computing. Wipro's continued focus on enhancing technological capabilities

combined with its strong delivery track record would aid in deal wins and in turn support long-term business growth.

While over the next 12-18 months, some recovery in IT expenditure by Europe (which had fallen because of oil price volatility) and focused efforts by Wipro on strengthening its verticals by various acquisitions of intellectual properties as well as partnering for diversifying its skill sets are expected to support revenues. The overall revenue outlook for the industry appears muted.

The rating continues to factor in the strong financial profile of the company, which is characterised by positive cash accruals and healthy debt coverage metrics. Wipro maintained a healthy capital structure during FY2017, with leverage of 0.3x as on March 31, 2017. The company has unutilised lines of credit (in the form of bank overdrafts, lines of credit) amounting to over Rs. 5,300 crore and sizable cash and liquid balance to over Rs. 15,000 crore as on March 31, 2017. Going forward, the company is expected to continue investing in intellectual properties and acquisitions; however, it will be supported by existing cash reserves. The rating takes into account the increasing pricing pressure from competitors, challenges of retaining and training a large talent pool and the risk of sizable portion of revenue (almost 17%) generated from its top 10 clients. The company has taken steps to re-align its strategies to mitigate these risks. The company is recruiting locally and acquiring strategically companies within various IT sectors to diversify its geographical base and skill sets, while focussing on winning new deals.

Key rating drivers

Credit strengths

- Global player in the IT services industry and dominant position in the domestic market
- Proven ability to win and handle large scale projects globally
- Strategic relationships with key clients supporting high repeat business (98% in FY2017)
- Strong financial profile characterised by healthy operating accruals, sound cash position and comfortable debt coverage metrics

Credit weaknesses

- Uncertainties over the macro environment in key markets like North America and Europe pertaining to IT budgets, which could result in demand compression, pricing pressure and increased credit risk from vulnerable clients
- Margin pressures arising from wage inflation; competitive pressures (from companies in India as well in other low-cost countries)
- Managing challenges of foreign currency fluctuations and employee attrition
- Uncertainties over the new US Government's visa policies for its non-immigrant and temporary skilled workers such as H-1B and L-1 visa programmes
- Increasing automation of processes in traditional businesses, such as business process outsourcing (BPO) and application as well as infrastructure management driving demand for re-skilling and new investments

Description of key rating drivers:

The rating factors in Wipro's market position in the IT service industry globally as well as domestically (third in terms of revenue following TCS and Infosys). The company witnessed a growth of 7.4% during FY2017 on constant currency basis on the back of its diversified revenue generating verticals with Finance Solution contributing about 26%. The company also increased its digital revenue to 22.1% in FY2017 as compared to 17.5% in FY2016 indicating its ability to adapt to the changing needs of its clients. The company recorded repeat business of 98% from its existing clients with revenues from top client growing by 6.4% QoQ for Q4 FY2017 on the back of strong execution of projects. The revenue from its top 10% of customers dropped from 19.3% in FY2016 to 17.1% in FY2017 on account of drop in



expenditure from some key customers in the energy segment. During FY2017, the company sustained its quarterly growth rate with its recent acquisitions. The company also expanded its operations in various regions and acquired intellectual property.

The rating, moreover, factors in the uncertainties such as the concentration risk owing to more than 50% of revenue generation by the US market. The company faces headwinds due to expected increase in employee cost because of H1-B visa fees, visa availability issues and wage inflation resulting in pricing pressure. The increasing demand for automation requires updating the skills of its workforce, further pressurizing its talent pool. Overall, the changing scenario calls for rethinking and realigning of strategies for IT companies, with Wipro already demonstrating focused efforts through its business strategies.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[ICRA's Rating Methodology for Information Technology Corporate Credit Ratings: A Note on Methodology](#)

about the company:

Wipro Limited (Wipro) is the third largest Indian player in the global IT services outsourcing industry in terms of revenue, after Tata Consultancy Services (TCS) and Infosys Limited (Infosys). Wipro was incorporated in 1945 as Western India Vegetables Product Limited and was predominantly a consumer care products manufacturer till 1980, when it began its IT services business. The company's operations can be broadly classified into IT services and IT products. With effect from April 01, 2012 (FY2013), the company demerged its other divisions (consumer care and lighting, medical equipment and infrastructure engineering) into a separate company, Wipro Enterprises Limited (WEL), to enhance its focus and allow both businesses to pursue their individual growth strategies.

Its **IT services segment** (95% of revenues in FY2017), provides IT and IT enabled services (IT/ITeS) to customers. Key service offerings include software application development, application maintenance, research and development services for hardware and software design, data centre outsourcing services and business process outsourcing (BPO) services.

During FY2017, the company has regrouped its industry verticals into—finance solutions (BFSI), healthcare, life sciences and services (HLS), consumer (CBU), energy, natural resources and utilities (ENU), manufacturing and technology (MNT), and communications.

Wipro's **IT products segment** (5% of revenues in FY2017) offers a range of Wipro personal desktop computers, Wipro servers and Wipro notebooks. It is a value-added reseller of desktops, servers, notebooks, storage products, networking solutions and packaged software for leading international brands. However, this segment commands relatively low margins.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

S.No	Name of Instrument	Current Rating FY2018		Chronology of Rating History for the past 3 years		
		Rated amount	Month-year & Rating	Month- year & Rating in FY2017	Month- year & Rating in FY2016	Month- year & Rating in FY2015
			July 2017	April 2016	April 2015	November 2014
1	Fund based (inter-changeable) facilities	Rs. 1,338.0 crore	[ICRA] AAA (Stable)/ [ICRA] A1+/ Reaffirmed	[ICRA] AAA (Stable)/ [ICRA] A1+/ Reaffirmed	[ICRA] AAA (Stable)/ [ICRA] A1+/ Reaffirmed	[ICRA] AAA (Stable)/ [ICRA] A1+/ Reaffirmed
2	Fund based (inter-changeable) facilities	USD 1,097.0 million	[ICRA] AAA (Stable)/ [ICRA] A1+/ Reaffirmed	[ICRA] AAA (Stable)/ [ICRA] A1+/ Reaffirmed	[ICRA] AAA (Stable)/ [ICRA] A1+/ Reaffirmed	[ICRA] AAA (Stable)/ [ICRA] A1+/ Reaffirmed
3	External commercial borrowings (ECBs)	USD 150.0 million	[ICRA] AAA (Stable)/ Reaffirmed	[ICRA] AAA (Stable)/ Reaffirmed	[ICRA] AAA (Stable)/ Reaffirmed	[ICRA] AAA (Stable)/ Reaffirmed
4	Non- fund based facilities	Rs. 4,136.0 crore	[ICRA] AAA (Stable)/ Reaffirmed	[ICRA] AAA (Stable)/ Reaffirmed	[ICRA] AAA (Stable)/ Reaffirmed	[ICRA] AAA (Stable)/ Reaffirmed
5	Non- fund based facilities	USD 10.7 million	[ICRA] AAA (Stable)	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rate	Current Rating and Outlook
Fund based limits (Long term/ short term)	-	-	-	Rs 1333.80 crore	[ICRA]AAA(Stable)/ [ICRA]A1+ / Reaffirmed
Fund-based limits (Long term/ short term)	-	-	-	USD 1,097.00 million	[ICRA]AAA(Stable) / [ICRA]A1+ / Reaffirmed
ECB	-	-	-	USD 150.00 million	[ICRA]AAA(Stable)/ Reaffirmed
LC/BG	-	-	-	Rs 4,136.40 crore	[ICRA]AAA(Stable) / Reaffirmed
LC/BG	-	-	-	USD 10.7 million	[ICRA]AAA(Stable) / Reaffirmed

Contact Details

Analyst Contacts

Subrata Ray

+91 22 2433 1086

subrata@icraindia.com

Pavethra Ponniah

+91 44 4596 4314

pavethrap@icraindia.com

Resham Trivedi

+91 80 4332 6417

resham.trivedi@icraindia.com

Relationship Contact

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500